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Industrial Distribution

December 1985

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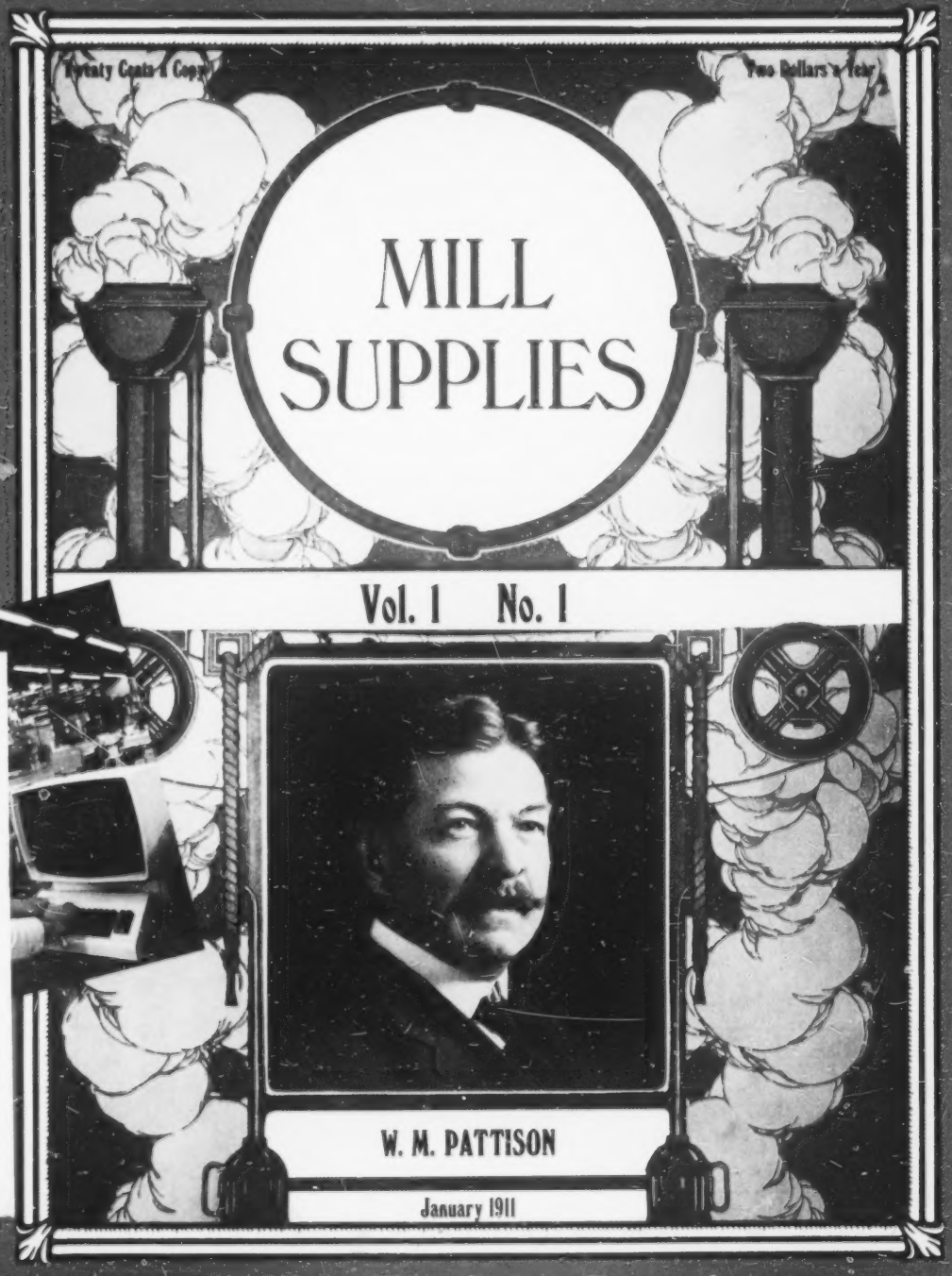
Hotline: TRENDS: 1986 High tech, service markets expand; suppliers condense, improve lines



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W.M. Pattison Supply
Out of the past...into the future

ID Industrial Distribution

VOL. 74, NO. 12/74th yr. A TECHNICAL PUBLISHING PUBLICATION DECEMBER 1985

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New product liability proposal exempts distributors from 'first tier' claims; Lyon Metal Products employees purchase company's assets; Call to Action; David Gutridge named exec. v.p. by Dayco Corp.; Indicators; NFPA 'PRO' nominations end Dec.31; Sandy named head of Ingersoll Pump Group.

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Industrial Distribution, (USPS-889-860) is published monthly by Technical Publishing, a Division of Dun-Donnelley Publishing Corporation, a Company of the Dun & Bradstreet Corporation, John K. Abely, President. EXECUTIVE, EDITORIAL AND ADVERTISING OFFICES, 875 Third Ave., New York, NY 10022. (212) 605-9400. Second class postage paid at Barrington, IL 60010 and additional mailing office.

Postmaster: Send address changes to Industrial Distribution, Circulation Dept., P.O. Box 1063, Barrington, IL 60010.

Microfilm or reproductions of issues or articles are available. Write Xerox University Microfilms, Ann Arbor, MI 48106.

INDUSTRY NEWS...

warehouses in 11 eastern and southern states which supply parts to companies within a 13 state area. J. Michael Moore, Invetech's president and CEO said that the new company will operate as a wholly-owned subsidiary.

According to Invetech, the purchase of American Bearing makes it one of the top five industrial distributors in the U.S.A., with a workforce of more than 800.

The company's other subsidiaries include: Detroit Ball Bearing; Moore Bearing; Detroit Bearing and Supply International; En-Pak, Inc.; and Urgent Industrial Supply, a joint venture company headquartered in Windsor, Ontario, Canada.□

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Indicators...

Continuing its inconclusive pattern of recent months, two of the three key indices of distribution activity dropped while the third increased. The NIDA/SIDA *Industrial Distribution Index* fell by seven points in September, from 151.7 to 144.7, reflecting weakness in all four of its regions. The East retreated by 7.3 points, the Midwest by 6.5 points, the West by 6.3 points and the South by 8.4 . . .The August SIDA *Monthly Sales Trend Report*, on the other hand, showed surprising strength over its July figures, posting an average gain of 4.23 overall. Regionally, increases varied from a low of .12 in Area I (NC, VA,WV) to a spectacular 15.34 in Area III which comprises AL, KY, MS, and TN. Area II (FL, GA, SC, and Puerto Rico) advanced by 1.35 while SIDA Area IV (AR, LA, OK, TX) expanded its business 7.65 points. Despite the growth, however, year-to-date '85 versus YTD '84 shows a loss of 1.64, and August '85 compared to August '84 decreased by 7.56 . . .ASMMA's *New Order Index* for August declined by 5.2 points for a loss of 4.1% from July. The 120.3 figure, while lower than the three previous months, is higher than the first four months of the year when the index did not rise above the 118's . . .The American Machine Tool Distributors' Association (AMTDA) *New Orders Index* fell a disturbing 15% in August to 59.2 from the July level of 69.4. The index is also down from August '84 by 19% . . .On the optimistic side, the National Welding Supply Association *Welding Supply Index* for August rose 10.9 points over July closing at 202.1. This compares with a rating of 179.9 in August '84 . . .The National Association of Aluminum Distributors reports that shipments rose by 4.6 points in August.

REGIONAL REPORT

September sales remain down

National regional sales figures for September continued soft, with the U.S. total remaining down 4% (see graph) compared to the same month last year.

Although three regions reported positive figures, Middle Atlantic (up 4%), West North Central (up 6%), and Pacific (up 2%), four regions were in the negative column with West South Central and East North Central down a sharp 16% and 10% respectively. Area reporting was little better with the exception of Wisconsin which came in with a gain of 14%.

In month-to-month figures, all of the regions were down except Pacific which registered a slim 2% gain. The next best figure was 0 or even by Middle Atlantic. All of the areas recorded negatives in this category, with West South Central again showing the poorest figure, off 11%. The U.S. total was down 3% in September, after having been up 4% in August.

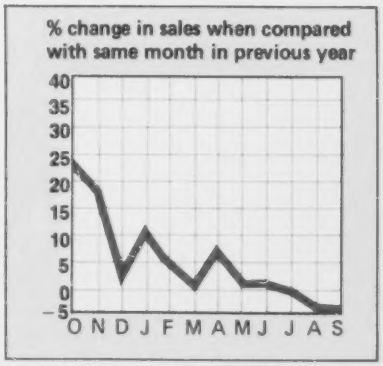
Cumulative figures barely hung on to a 2% gain, the first 9 months of '85 compared to the first 9 months of '84. The statistics here for both regions and areas were mixed. This is the slowest indicator to record a trend, and it has been steadily declining since mid-year.

Receivables have not changed much in year-to-year figures, although here too there has been a deterioriation since mid-year, when figures broke briefly into the high 30-day levels.□

RECEIVABLES*

	Sept. '85 Gen.	Sept. '85 Spec	Sept. '84 Gen.	Sept. '84 Spec.
New England	45	49	42	49
Middle Atlantic	48	48	46	49
South Atlantic	37	39	36	39
East North Central	42	39	41	39
East South Central	40	—	40	—
West North Central	—	40	—	44
West South Central	—	39	—	41
Mountain	—	—	—	—
Pacific	38	41	43	41
National	42	42	41	43

* Average days outstanding



Sales unchanged in September.

SALES BY REGIONS (% change)

	Sep '85 vs. Aug.'85 Gen.	Spec.	Both	Sep '85 vs. Sep '84 Gen.	Spec.	Both	1st 9 months'85 vs. 1st 9 months'84 Gen.	Spec.	Both
NEW ENGLAND: CT, RI, MA, NH, VT, ME	+6	−7	−2	0	−3	−2	0	+6	+3
Connecticut	−5	−8	−6	+3	−9	−1	−1	+7	+2
Massachusetts	—	—	—	—	—	—	—	—	—
MIDDLE ATLANTIC: NY, NJ, PA	−2	+2	0	−8	+7	+4	+2	+4	+4
New York Metropolitan Area	—	—	—	—	—	—	—	—	—
Upstate New York	—	+29	—	—	+16	—	—	+3	—
Pennsylvania	−2	−5	−4	−15	+10	+4	−14	+2	−1
SOUTH ATLANTIC: DE, DC, MD, FL, GA, NC, SC, VA, WV	−3	−4	−3	−7	+2	−2	−2	+3	0
Georgia-Florida	−9	−3	−5	−14	+7	−2	+3	+3	+3
EAST NORTH-CENTRAL: OH, IN, IL, MI, WI	−2	−4	−3	−21	+6	−10	+1	+5	+3
Indiana	—	—	—	—	—	—	—	—	—
Wisconsin	−3	−3	−3	+13	+14	+14	+2	+8	+6
Chicago	—	—	—	—	—	—	—	—	—
Michigan	+1	—	—	+4	—	—	+2	—	—
Ohio	−5	−5	−5	+4	−8	−2	+4	+3	+3
EAST SOUTH CENTRAL: AL, MS, KY, TN	−7	—	—	+12	—	—	+16	—	—
WEST NORTH CENTRAL: MN, ND, SD, IA, NE, KS, MO	−1	−7	−6	−7	+11	+6	−6	+1	−1
WEST SOUTH CENTRAL: AK, LA, OK, TX	+9	−15	−11	−2	−19	−16	−15	−12	−12
Texas	—	−16	—	—	−14	—	—	−12	—
MOUNTAIN: NM, AZ, CO, UT, NV, WY, MT, ID	—	—	—	—	—	—	—	—	—
PACIFIC: CA, OR, WA	+1	+3	+2	+2	0	+2	+10	−6	+5
L.A.-San Diego	—	—	—	—	—	—	—	—	—
Oregon-Washington	—	+9	—	—	+10	—	—	−6	—
U.S. TOTALS	−1	−4	−3	−8	+1	−4	+2	+1	+2

HOTLINE

High-tech, service markets expand; suppliers condense, improve lines

In a survey of distributors in each of 48 states, ID found a 'wait and see' attitude in the face of changing markets, prices and suppliers.

NEW YORK—Distributors around the nation are taking a cautious stance toward business prospects in 1986 as they see traditional markets eroding to be replaced by new ones, manufacturers divesting divisions and prices caught in a limbo of uncertainty.

In a nationwide survey of distributors located in all of the 48 contiguous states, *ID* also found a high degree of trepidation concerning general economic conditions for 1986 in every area of the country but one.

In response to the question *Do you expect your business next year to be worse, about the same, or better than it was this year?*, 54% of distributors surveyed reported that they expect their business to remain at 1985 levels next year (see table). However, by eliminating the one anomaly, the Midwest, from the survey, the percentage anticipating essentially stagnant business next year would rise to 62%.

On the other hand, expectations of improved business next year was indicated by 43% of all distributors surveyed. By eliminating the atypical Midwest, the number drops to 35%.

According to *ID's* survey, despite the severe problems experienced by heavy industry in the Midwest–which some have dubbed the *rust belt*–and the weakness of agriculture, a surprisingly large majority of Midwestern distributors are expecting marked improvement in their business next year.

Fully 87% of the Midwestern distributors sampled said that they expect business to be better in 1986 than 1985, while only 12% said they expect it to remain level. Significantly, of those distributors nationwide expecting to see a business improvement in 1986, Midwestern distributors anticipated the greatest increase, 15%, compared to a low of 6% in the Northeast and an average of 10% for all regions.

Harley R. Ireland, III, president of Industrial Supply Co., a general line distributor in Terre Haute, IA, says that business in his region has rebounded from the pit of the 1981-1982 recession.

"In our area, we've pretty much come back from the slump and we're now doing about as well as we were before the recession," notes Ireland. "Although the surrounding countryside is primarily agricultural, our business in Terre Haute is pretty much diversified. Although we've been trying to cut back on our inventory, it's hard to do for a general line company."

Reflecting the optimistic prognosis by other Midwest distributors, Ireland says, "We expect to see a moderate increase next year and if the dollar continues to drop, it would help our agricultural exports which could also cause some overall improvement."

From Deer Park, TX, Steven A. Humphrey, president of Humphrey Supply Co. reports, "Our business has been slow in '85 and we've had a bad recession for three years primarily because of oil. But that could change overnight. Seems like the oil business always goes in cycles and this is the worst it's ever been.

"There's no indication that anything is going to change, but I doubt that Houston is going to become a ghost town and I doubt that all of the chemical industry is going to shut down."

Supporting 40% of the distributors in the Far West who told *ID* that they expect business to improve in 1986, Loring R. Jones, Jr., president of Jones Industrial Hardware, Long Beach, CA, looks forward to some movement up-

Do you expect your business in 1986 to be worse, about the same or better than it was in 1985? If you think it will be better, would you estimate a percentage increase?

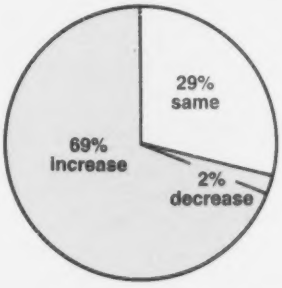
	Area of country							
	North East	South East	Mid Atlantic	Mid West	Great Plains	Mountain	Far West	TOTAL
Expect business to be worse	0%	0%	0%	0%	16%	0%	0%	2%
Expect business to be same	57%	70%	57%	12%	66%	60%	60%	54%
Expect business to be better	42%	30%	42%	87%	16%	40%	40%	43%
Percent better	6%	7%	11%	15%	10%	8%	10%	10%

Note: Because of rounding figures, total may be less than 100%

Source: Industrial Distribution

HOTLINE...

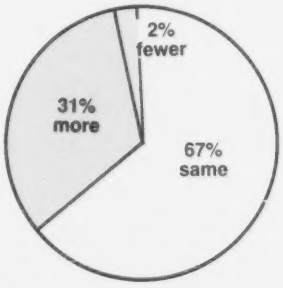
ward in 1986. "Our gross sales are up over '84 and we're predicting a 10% increase over '85 next year. There's a lot of business out here if you can get it. But there's a lot of competition, too. If I see any price increase for 86, it will be very small. I've already got reports of companies raising prices by the middle of next summer, but at a maximum of 5% if they can get away with it."



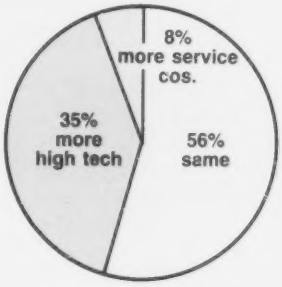
Do you expect to see suppliers' prices increase, remain the same, or decrease?

Commenting on the softness of the so-called *high tech* area, once touted as the salvation of American industry, Jones says "We get involved in high tech to a certain extent, but I don't know of anything new coming up in the area. They still seem to be laying off here at the computer companies. Some of the companies that we worked with ten years ago are gone now."

Speaking from the heart of the Southeast, which indicated the highest percentage (70%) of any geographic region expecting business to remain flat in 1986, is Clyde V. Orr, president of Orr Industrial Specialties Co. located in Sheffield, AL.



Do you expect to handle more imports, about the same proportion of imports, or fewer imports?



Do you expect your customer mix to remain the same? Change to more high tech? More service companies?

"We're making a profit and we're hanging in there and we're proud of that. Some areas are experiencing good growth, but we feel that business will really not be getting all that better. We

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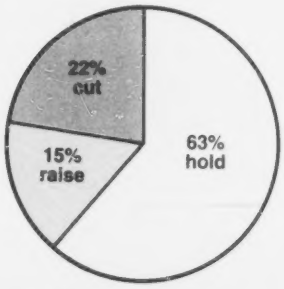
see signs that suppliers are being hurt terrifically in a national way which is of concern to us. In fact, there are a number of suppliers who are letting salesmen go. And when companies lay off salespeople, it reminds you of the recession again.

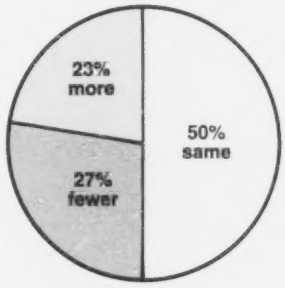
"So what I'm saying is that we're holding on and our business will be about the same with very little improvement. But I think we're at the bottom of the decline."



Do you expect to increase your inventory levels, hold them at current levels, or decrease inventory?

Politically, the state of Maine has traditionally represented the majority point of view and the Northeast's 57% *same business, 42% better business* opinion of 1986 in response to the poll, closely matches the national average. Bert Andrews, vice president of Holmes Distributors, Inc. in Portland, ME, explains the reason for the Northeast's lack of enthusiasm.

"We're slightly ahead of '84 but not much. We sell to paper companies; International Paper is the big one and paper has been our traditional base and it's been soft lately–terrible! In southern New Hampshire there are machine tool manufacturers and we do business with them and we have some computer industry that spills over from Massachusetts, but that's also very soft. In 1986, I see the economy staying about the same. A softer dollar would help us from the point of view of paper prices. If the prices on imports go up, it would give a shot in the arm to domestic manufacturers."



Do you expect to deal with more suppliers, the same number of suppliers, or fewer suppliers?

Although the problems afflicting the industrial distribution business in 1986 are many, ranging from the continuing weakness of oil and agriculture to import penetration and a cooling computer industry, distributors nevertheless are approaching the year with their fingers crossed and a prayer on their lips.

Doug Harper